

Message Text

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ACTION EA-09

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R 170736Z FEB 77

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 3836

INFO USLO PEKING

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY RANGOON

AMEMBASSY MOSCOW

AMEMBASSY ROME

CINCPAC

COMUSDTG

AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY CANBERRA

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 3 HONG KONG 01992

CINCPAC FOR POLAD

E9O. 11652: GDS

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1. SUMMARY OF ACTIVITIES DURING THE REPORTING PERIOD

SUMMARY: AS RECTIFICATION AND CONSOLIDATION OF RURAL PARTY ORGANS ASSUMES THE TRAPPINGS OF A MAJOR, NATIONWIDE EFFORT, A PARALLEL PREOCCUPATION BY LOCAL UNITS WITH PRACTICAL, DAY-TO-DAY ECONOMIC AND SOCIAL PROBLEMS IS ALSO CLEARLY EMERGING. THIS CONCERN IS OFTEN CAREFULLY HEDGED IN IDEOLOGICAL LANGUAGE AS THAT OF A LOCAL KWEICHOW UNIT WHICH PERSISTED IN TAKING "CLASS STRUGGLE AS THE KEY LINK" AND EXPANDED THE "MULTIPLE CROPPING INDEX AS A REVOLUTION". AT THIS TIME OF THE YEAR AGRICULTURAL CAPITAL CONSTRUCTION IS A PERENNIAL SUBJECT OF ATTENTION FOR LOCAL AUTHORITIES AND AMIDST CALLS TO "SPEED UP" RURAL CONSTRUCTION EFFORTS, MORE STRESS IS APPARENTLY BEING PUT ON CONCENTRATING MANPOWER ON KEY PROJECTS THAT WILL PRODUCE RESULTS "THIS YEAR". IN CARRYING OUT THE "SPIRIT" OF THE SECOND NATIONAL TACHAI CONFERENCE, NUMEROUS REFERENCES ARE BEING MADE TO REVISION OF ORIGINAL PLANS. THE PRODUCTION ORIENTATION OF THE TEACHI CAMPAIGN IS BECOMING INCREASING EVIDENT IN PROVINCIAL MEDIA ACCOUNTS LINKING ACHIEVEMENTS OF TACHAI STATUS WITH QUANTITATIVE PRODUCTION GOALS. THIS TENDENCY IS SUPPORTED BY A STATISTICAL SAMPLING COMPARING UNITS THAT HAVE ACHIEVED AGRICULTURAL TARGETS AND TACHAI STATUS (HK A-30). POLICY DIRECTION IN INDUSTRY IS AIMED AT TIGHTENING CONTROL AND SUPERVISION OF THE SYSTEM
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AT ALL LEVELS. INSTITUTION OF BETTER MANAGEMENT PROCEDURES IS CLEARLY OF TOP PRIORITY, BUT CLOSER CENTRAL SUPERVISION OVER VITAL SECTORS OF THE ECONOMY ALSO APPEARS TO BE IN STORE, IMPLYING A STEP BACK FROM SOME OF THE MORE EXTREME FEATURES OF DECENTRALIZATION. (HK 1924). INITIAL 1977 CLAIMS IN THE ENERGY SECTOR BY THE PETROLEUM AND COAL INDUSTRIES INDICATE THAT PERFORMANCE IS CONTINUING THE MOMENTUM GAINED TOWARD THE END OF 1976 (ITEM 2). CHINA'S PETROLEUM INDUSTRY, WHILE NOT MAINTAINING THE PACE OF PREVIOUS YEARS, APPEARS TO HAVE WEATHERED THE POLITICAL AND NATURAL DISRUPTIONS OF 1976 REASONABLY WELL ALTHOUGH DISEQUILIBRIUM WITHIN THE INDUSTRY COULD AFFECT EXPORTS IN 1977 (ITEM 3). IN TRANSPORTATION OVERALL RAILWAY PERFORMANCE IN 1976 REMAINS UNCLEAR WITH SIX OUT OF TWENTY RAILWAY BUREAUS NOT HAVING REPORTED. THREE OF THE NON-REPORTING BUREAUS OCCUPY PIVOTAL POSITIONS IN THE COUNTRY'S RAIL NETWORK (ITEM 8). DOMESTIC AVIATION SERVICES HAVE APPARENTLY CONTRACTED SOMEWHAT. A RECENTLY ACQUIRED

SCHEDULE THROUGH MARCH 1977 REVEALS A SLIGHT DECLINE IN NUMBER OF WEEKLY FLIGHTS AND SERVICES AS WELL AS ROUTES (CLEM 7). IN A YEAR OF GENERAL DECLINE IN CHINA'S TRADE, PRC EXPORTS TO HONG KONG SHOWED HEALTHLY INCREASES, RISING BY 14 PERCENT OVER 1975 TO \$1.58 BILLION (ITEM 5). FOREIGN DIPLOMATS IN PEKING REPORT THAT THE PRC'S FOREIGN TRADE PLAN FOR 1977 HAS BEEN APPROVED, ALTHOUGH THE FIFTH FIVE-YEAR PLAN IS STILL UNDER STUDY (PEKING (288). PRC TRADE ACTIVITY IN 1977 IS EXPECTED TO REMAIN SLUGGISH, ALTHOUGH THE TEMPO SHOULD BEGIN TO PICK UP TOWARD THE END OF THE YEAR. NEWS AGENCY DISPATCHES HAVE REPORTED UNUSUALLY LARGE CHINESE GOLD SHIPMENTS TOTALING 80.8 TONS WORTH \$350 MILLION TO THE LONDON MARKET IN DEC 1976. THE MOVE MAY REFLECT SOME PEAKING OF FOREIGN EXCHANGE NEEDS IN THE FIRST HALF OF 1977 (ITEM 6).
END SUMMARY. CONFIDENTIAL
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2. EARLY 1977 INDUSTRIAL PERFORMANCE

THE PRC'S TWO MAIN ENERGY SECTORS, COAL AND OIL, HAVE MADE VARIOUS CLAIMS FOR JANUARY PERFORMANCE INDICATING THAT PRODUCTION IS OFF TO A REASONABLY GOOD START. NCNA CLAIMED THAT JANUARY COAL PRODUCTION HAD EXCEEDED THE MONTHLY STATE PLAN BY 6.7. 034:3,5. TUNNELING FOOTAGE ALSO EXCEEDED THE PLAN. TWENTY-ONE OF CHINA'S 29 PROVINCIAL UNITS AND 69 MINING BUREAUS WERE CITED AS HAVING OVERFULFILLED THE JANUARY COAL PRODUCTION PLAN. KWANGTUNG REPORTEDLY SET AN ALL-TIME MONTHLY OUTPUT RECORD, UP 12.2 PERCENT OVER JAN 1976. SHANSI, THE LEADING COAL PRODUCER, CLAIMED IT SET A MONTHLY RECORD FOR JANUARY OVERFULFILLING OUTPUT BY 5 PERCENT WHILE NINGHSIA EXCEEDED ITS JANUARY COAL OUTPUT PLAN BY 11.9 PERCENT (NCNA 2/9/77, 2/3/77 2/5/77, 2/4/77, 2/8/77).

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THE PETROLEUM INDUSTRY SO FAR HAS NOT MADE ANY
CLAIM AS A WHOLE FOR JANUARY. HOWEVER, TACHING CLAIMED
THAT JANUARY PRODUCTION WAS AT "AN ALL"TIME HIGH".
YUMEN PREFULFILLED ITS JANUARY CRUDE OIL QUOTA BY THREE
DAYS (CNS 2/4/77, NCNA 2/7/77).

COMMENT: IF CHINA IS TO CARRY OUT THE THEME OF
"GREETING THE NATIONAL TACHING CONFERENCE WITH OUTSTANDING
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RESULTS" STEPPED-UP COAL AND OIL PRODUCTION IS OBVIOUSLY
ESSENTIAL. WHILE THESE INITIAL CLAIMS ARE NOT CNCLUSIVE,
PARTICULARLY FOR PETROLEUN. THEY DO GIVE THE
IMPRESSION THAT PRODUCTION IS PICKING UP, CONTINUING
THE MOMENTUM WHICH BEGAN IN THE FOURTH QUARTER OF
1976. UNCLASSIFIED

3. CHINA'S PETROLEUM INDUSTRY IN 1976

THE PRC'S PETROLEUM INDUSTRY MADE STEADY, IF
UNEVEN PROGRESS IN 1976 ON MOST FRONTS. PRODUCTION
WAS UP 13 PERCENT IN THE FIRST QUARTER AND 10 PERCENT

AT SIX MONTHS OVER THE SAME PERIOD IN 1976. OUTPUT FOR THE ENTIRE YEAR INCREASED 13 PERCENT OVER 1975, RESULTING IN AN ESTIMATED CRUDE OUTPUT OF 84 MMT, INTERNAL DEMAND EVIDENTLY INCREASED FASTER THAN ANTICIPATED, DUE IN PART, AT LEAST, TO AN UNAUTHORIZED SPEEDING UP OF COAL-TO-OIL INDUSTRIAL CONVERSION BY THE "GANG". THIS CAUSED SHORTAGES IN SOME LOCALS AND COULD EVEN AFFECT 1977 CRUDE EXPORTS UNTIL PRODUCTION FULLY CATCHES UP. WORK CONTINUED ON A NUMBER OF REFINING AND PETROCHEMICAL PROJECTS, WHICH ARE SCHEDULED FOR COMPLETION BY 1978 AND WILL PROVIDE MUCH NEEDED ADDITIONAL CAPACITY.

A MAJOR NEW OILFIELD, THE NORTH CHINA FIELD, CAME INTO PRODUCTION IN 1976. ALTHOUGH, ITS LOCATIONS HAS NOT BEEN OFFICIALLY DECLARED, BY MOST INDICATIONS IT IS NOT A NEW FIELD AS SUCH, BUT AN ADMINISTRATIVE EXTENSION OF THE TAKANG FIELD IN HOPEI PROVINCE. OFFSHORE EXPLORATION POTENTIAL WAS BOLSTERED BY THE DELIVERY AT THE END OF 1976 OF THE FIRST ROBIN LOH JACK-UP RIG WHICH WAS CONSTRUCTED IN SINGAPORE. CHINA'S EXPORTS OF CRUDE WERE PROBABLY EQUAL TO OR SLIGHTLY LESS THAN 1975'S ESTIMATED 11.5 MMT. PRC CRUDE EXPORTS TO JAPAN, CHINA'S BIGGEST MARKET, CONFIDENTIAL

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DECLINED BY NEARLY 2 MMT TO A LITTLE OVER 6 MMT, BUT WERE OFFSET BY INCREASES TO SEVERAL OTHER COUNTRIES, INCLUDING HONG KONG AND THAILAND. THE PRC CONTINUED TO SEND (AND RECEIVE) PETROLEUM DELEGATIONS TO WESTERN COUNTRIES: ALTHOUGH NO MAJOR PURCHASES OF EQUIPMENT OR TECHNOLOGY ARE KNOWN TO HAVE RESULTED FROM THESE VISITS, PEKING CONTINUED TO EVINCE INTEREST IN MOST FACETS OF WESTERN PETROLEUM TECHNOLOGY.

IN SUM, CHINA PETROLEUM INDUSTRY WAS ACTIVE IN ALL ITS SECTORS DURING 1976. ALTHOUGH ITS RECORD DID NOT MATCH THAT OF PREVIOUS YEARS, THE INDUSTRY PROBABLY BORE UP IN THE TROUBLED YEAR OF THE DRAGON BETTER THAN MOST PRC INDUSTRIES. UNCLASSIFIED

4. LOCATIONS OF NORTH CHINA OILFIELD

BEGIN UNCLASSIFIED. CHINESE OFFICIALS HAVE REPORTEDLY DISCLOSED THAT NEW OIL FIELDS HAVE BEEN FOUND NORTH OF THE YELLOW RIVER. THIS INFORMATION WAS GIVEN TO ONE OF THE JAPANESE CRUDE OIL PURCHASING MISSIONS WHICH RETURNED FROM PEKING ON FEB 4. (REUTER, TOKYO 2/5/77) END UNCLASSIFIED

BEGIN CONFIDENTIAL. A LOCAL TA KUNG PAO REPORTER TOLD CONGENOFF THAT THE NORTH CHINA OILFIELD IS AN ADMINISTRATIVE EXPANSION OF THE TAKANG FIELD, WHICH IS LOCATED SOUTH OF TIENTSIN IN HOPEI (HK 283). THIS WOULD IMPLY THAT PRODUCTION IN AREAS NEAR TAKANG HAS BECOME IMPORTANT ENOUGH TO WARRANT FORMATION OF A NEW ADMINISTRATIVE UNIT. END CONFIDENTIAL

5. SINO-HONG KONG TRADE 1976

IN A YEAR OF GENERAL DECLINE IN CHINA TRADE, PRC EXPORTS TO HONG KONG SHOWED HEALTHY INCREASES. EXPORTS CONFIDENTIAL

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ROSE 14 PERCENT OVER 1975 TO \$1.58 BILLION. HONG KONG RECEIVED SOME 30 PERCENT OF ESTIMATED TOTAL PRC NON-COMMUNIST EXPORTS (INCLUDING RE-EXPORT ITEMS) IN 1976 AS COMPARED WITH 25 PERCENT IN 1975. RE/EXPORTS OF PR-ORIGIN GOODS THROUGH HONG KONG ROSE DRAMATICALLY TO \$490 MILLION IN 1976 UP 238 PERCENT FROM 1975. THIS COMPARES TO A GROWTH RATE OF ONLY 13 PERCENT IN 1975 OVER 1974. THE PRC'S NET VISIBLE TRADE EARNINGS (MINUS RE/EXPORT) FROM THE HONG KONG TRADE CAME TO \$1,089 MILLION LAST YEAR, A MODEST 6 PERCENT RISE OVER 1975'S \$1,027 MILLION, AS COMPARED WITH A 20 PERCENT INCREASE OVER 1974.

COMMENT: PERFORMANCE IN 1976 UNDERSCORED THE UNIQUE POSITION HELD BY HONG KONG IN PRC FOREIGN TRADE. THE LARGE JUMP IN GOODS SENT THROUGH HONG KONG FOR RE-EXPORT MAY BE PARTLY EXPLAINED AS A DIVERSION OF CARGOES FROM NORTHERN PORTS AFFECTED BY THE JULY TANGSHAN EARTHQUAKES, BUT IT IS ALSO POSSIBLE THAT PEKING HAS DECIDED TO MAKE MORE LONG-TERM USE OF HONG KONG AS A TRANSSHIPMENT POINT.

PARADOXICALLY, WHILE HONG KONG ABSORBED A PROPORTIONATELY LARGER SHARE OF CHINA'S TOTAL EXPORTS LAST YEAR, THE PRC'S SHARE OF HONG KONG'S IMPORTS ACTUALLY DECLINED FROM 20 PERCENT IN 1975 TO 18 PERCENT. IN THE COURSE OF LAST YEAR'S ECONOMIC BOOM, HONG KONG'S IMPORTS FROM ALL SOURCES WERE UP 29 PERCENT. THE PRC'S FAILURE TO KEEP PACE WITH OTHER SUPPLIES TO HONG KONG CAN BE PARTIALLY ATTRIBUTED TO ITS POOR ECONOMIC PERFORMANCE IN 1976. ALSO MUCH OF THE RISE IN HK IMPORTS CAME IN PRODUCTS IN WHICH THE PRC IS NOT COMPETITIVE. UNCLASSIFIED.

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R 170736Z FEB 77
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 3838
INFO USLO PEKING
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY MOSCOW
AMEMBASSY RANGOON
AMEMBASSY ROME
COMUSTDC
CINCPAC
AMEMBASSY BANGKOK
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6. CHINESE GOLD SHIPMENT

REUTERS DISPATCHES PUBLISHED IN HONG KONG ON FEB.
16 AND 17 DESCRIBE AN UNUSUALLY LARGE SHIPMENT OF
GOLD BY THE PRC TO LONDON IN DEC. 1976. THE TOTAL
RECORDED BY BRITISH CUSTOMS IS SAID TO HAVE BEEN
80.8 METRIC TONS, OR ROUGHLY \$350 MILLION WORTH
(AT \$135 PER TROY OUNCE).
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COMMENT: SINCE PRC BALANCE OF PAYMENTS POSITION

IN 1976 IS BELIEVED TO HAVE BEEN IN ROUGH BALANCE AND THERE HAS BEEN LITTLE RECENT EVIDENCE OF FOREIGN EXCHANGE STRINGENCY, EXPERTS HERE ARE SOMEWHAT PUZZLED BY THIS LARGE MOVEMENT, WHICH IS EVIDENTLY FOR PURPOSE OF SALE ON THE LONDON MARKET. OUR OWN VIEW IS THAT PRC MAY BE FACING SOME PEAKING OF FOREIGN EXCHANGE NEEDS IN FIRST HALF 1977, RESULTING FROM (A) SOME BUNCHING OF REPAYMENTS ON 1972-74 INDUSTRIAL PLANT CONTRACTS, (B) SOMEWHAT LOWER OIL EXPORTS TO JAPAN THAN HAD BEEN ANTICIPATED, AND (C) PAYMENT FOR ITEMS NEEDED TO REPLACE LOSSES FROM THE TANGSHAN EARTHQUAKE. IN ADDITION, THE PRC MAY HAVE MADE JUDGMENT THAT GOLD PRICE IS UNLIKELY TO RISE IN THE NEAR FUTURE AND THAT USING A PORTION OF THEIR GOLD STORE WOULD PROBABLY BE THE LEAST COSTLY WAY OF DEALING WITH THIS REQUIREMENT. LIMITED OFFICIAL USE

7. CAAC FLIGHT SCHEDULE--NO. 1, 1976-MARCH 31, 1977

IN A DEPARTURE FROM PAST PRACTICE, NO CIVIL

AVIATION ADMINISTRATION OF CHINA (CAAC) FLIGHT SCHEDULE WAS PUBLISHED IN THE PEOPLE'S DAILY IN 1976. A COPY OF THE SCHEDULE FOR NOV. 1, 1976 THROUGH MARCH 31, 1977 HAS, HOWEVER, BEEN PROCURED. A COMPREHENSIVE ANALYSIS OF THIS SCHEDULE IS BEING TRANSMITTED AS AN AIRGRAM. COMPARISON WITH PREVIOUS SCHEDULES REVEALS SOME INTERESTING CHANGES IN THE NEW SCHEDULE. THE TOTAL NUMBER OF FLIGHTS PER WEEK (INCOMING AND OUTGOING) AND THE TOTAL NUMBER OF DOMESTIC SERVICES PER WEEK SHOWED DECREASES OF THREE AND NINE FLIGHTS, RESPECTIVELY, COMPARED WITH THE NOV. 1975 SCHEDULE. CONFIDENTIAL

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AS FOR DOMESTIC ROUTES, SOME 13 INTER-PROVINCIAL SERVICES WERE DELETED WHILE FIVE WERE ADDED. SOME OF THE LONGER INTER-PROVINCIAL FLIGHTS WERE DROPPED. APPARENTLY, NO NEW CITIES HAVE BEEN ADDED TO THE NETWORK. AIRCRAFT IN USE INCLUDE THE BOEING 707, I1-62, I1-18, I1-14, AN-24, TRIDENT, VISCOUNT, LI-2 AND YUN-5. ONLY THREE CHANGES ARE SHOWN IN INTERNATIONAL SERVICES: (1) A BI-WEEKLY PEKING-PNOM PENH SERVICE WAS ADDED, (2) THE CANTON-HANOI-VIENTIENE SERVICE HAS BEEN DROPPED; AND (3) AIR FRANCE HAS REDUCED ITS FLIGHTS TO ONE WEEKLY. WITH ONE EXCEPTION, CAAC USES BOEING 707'S AND TRIDENTS ON INTERNATIONAL FLIGHTS; THE I1-62 IS USED ONLY ON THE PEKING-MOSCOW ROUTE. COMMENT: DELETIONS

OF DOMESTIC SERVICES WERE PROBABLY INTENDED TO AVOID
REDUNDANCY. RUSSIAN PLANES ARE
STILL DOMINANT WITHIN CAAC'S DOMESTIC NETWORK. BOEING
707'S ARE USED SPARINGLY IN DOMESTIC SERVICES BUT
PLAY A MAJOR ROLE IN INTERNATIONAL SERVICES. UNCLASSIFIED.

8. RAILWAYS: PLAN FULFILLMENT IN 1976

IN ITS SURVEY OF ECONOMIC PERFORMANCE IN 1976,
THE JAN. 26 ECONOMIC REPORTER CLAIMED "RELATIVELY
GOOD" RESULTS FOR THE PRC'S RAILWAY SECTOR.
FOURTEEN OUT OF TWENTY RAILWAY BUREAUS--PEKING,
SHANTUNG, TSINAN, CHICHIHAERH, HARBIN, SHENYANG,
HUHEHOTE, WUHAN, SIAN, LIUCHOW, CHINCHOW, KIRIN,
CANTON AND URUMCHI--WERE SAID TO HAVE FULFILLED OR
OVERFULFILLED THE 1976 TRANSPORT PLAN. NO
STATISTICS WERE GIVEN.

THREE BUREAUS MENTIONED BY THE ECONOMIC REPORTER--
SHENYANG, WUHAN AND HUHEHOTE--HAVE NOT PREVIOUSLY BEEN
REPORTED BY PRC MEDIA AS HAVING FULFILLED OR BEING NEAR
FULFILLMENT OF THE 1976 PLAN. THE ADDITION OF THESE
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BUREAUS GIVES AN IMPROVED PICTURE OF PERFORMANCE IN
THIS SECTOR; BUT SOME QUESTIONS CAN CERTAINLY BE RAISED
AS TO THE MEANING OF PLAN FULFILLMENT IN THE CASE
OF THE SHENYANG BUREAU AND PERHAPS WUHAN AS WELL.
THE TANGSHAN EARTHQUAKE UNDOUBTEDLY DISRUPTED MOVEMENTS
OF GOODS TO AND FROM SHENYANG. IF SHENYANG DID, IN
FACT, FULFILL A PLANNED TARGET, IT IS LIKELY THAT THIS
WAS A TARGET WHICH WAS REVISED DOWNWARD AFTER THE
EARTHQUAKE, OR PERHAPS INCLUDED TRANSPORT OF RELIEF
GOODS.

FINALLY, THERE REMAIN SIX BUREAUS WHICH HAVE NOT
THUS FAR REPORTED FULFILLMENT OF THE PLAN:
CHENGCHOW, TAIYAAN, NANCHANG, LANCHOW, CHENG TU AND
KUNMING. SINCE THREE OF THESE--CHENGCHOW, TAIYUAN
AND LANCHOW--OCCUPY PIVOTAL POSITIONS WITHIN THE
COUNTRY'S RAILWAY NETWORK, THE OVERALL PERFORMANCE
OF THE RAILWAYS REMAINS UNCLEAR.

9. RECENT REPORTS ON ECONOMIC TOPICS

HONG KONG 1680 - CCPIT-NCUSCT DISCUSSIONS; CHINESE
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HONG KONG A-30 - TACHAI CAMPAIGN AND AGRICULTURAL
PRODUCTION
HONG KONG A-28 - PRC'S CHEMICAL FERTILIZER INDUSTRY

HONG KONG A-27 - COMPARISON OF INVESTMENT COST PRC
PLANTS VERSUS IMPORTED PLANTS
HONG KONG 1924 - INDUSTRIAL ORGANIZATION--CONTROLLED
INITIATIVE
HONG KONG 1953 - 1976 CHINESE STEEL PRODUCTION
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Secure: OPEN
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Subject: PEOPLE'S REPUBLIC OF CHINA ECONOMIC REVIEW 4
TAGS: ECRP, CH, XX
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/f5a917c5-c288-dd11-92da-001cc4696bcc
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